Exhibit No.:
Issue: *Storage Withdrawal Adjustment*
Witness: *MICHAEL J. WALLIS*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No.: *GR-97-191*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

MICHAEL J. WALLIS

ASSOCIATED NATURAL GAS COMPANY

CASE NO. GR-97-191

Jefferson City, Missouri
June, 1999

DIRECT TESTIMONY

OF

MICHAEL J. WALLIS

ASSOCIATED NATURAL GAS COMPANY

CASE NO. GR-97-191

Q. Please state your name and business address.

A. Michael J. Wallis, P.O. Box 360, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Please describe your educational and professional background.

A. I graduated from Central Missouri State University at Warrensburg, Missouri and received a Bachelor of Science degree in Business Administration, with a major in Accounting, in July 1986. I am currently a licensed Certified Public Accountant in the state of Missouri.

Q. What has been the nature of your duties while in the employ of the Commission?

A. Under the direction of both the Manager of the Accounting Department (August 1987 to November 1992) and the Manager of the Procurement Analysis Department (October 1993 to the current time), I have assisted with audits and examinations of the books and records of utility companies operating within the state of Missouri.

Q. Have you previously filed testimony before this Commission?

A. Yes. Schedule 1, attached to my direct testimony, is a list of cases in which I have filed testimony before this Commission.

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to support the Staff's proposed storage withdrawal adjustment of $382,162 to Associated Natural Gas Company (ANG or Company) SEMO District gas costs. The Staff's proposed adjustment (which is necessary in order to remove, from ANG's 1996/1997 ACA filing, a $382,162 double recovery of storage withdrawal costs), if accepted by the Commission, would reduce the SEMO District's Firm customer gas costs by $343,388 ($73,441 for Liquefied Natural Gas (LNG) storage withdrawals and $269,947 for Natural Gas Pipeline Company (NGPL) non-S2 storage withdrawals) and would reduce the SEMO District's Interruptible customer gas costs by $38,774 ($9,391 for LNG storage withdrawals and $29,383 for NGPL non-S2 storage withdrawals).

Q. Does the Staff's proposed adjustment, to ANG's 1996/1997 ACA period gas costs of $382,162, constitute the second of three adjustments of a total proposed adjustment of $664,824 to the Missouri allocated LNG and NGPL non-S2 storage withdrawal costs which were reflected in ANG's LNG and NGPL storage accounts on December 1, 1995 (the date on which ANG changed its ACA recovery methodology for storage withdrawal costs from an up-front method to an as-used method)?

A. Yes. The third portion of Staff's total proposed disallowance of $664,824 is $28,186 and Staff intends to propose this adjustment in the context of ANG's 1997/1998 ACA filing, Case No. GR-98-399.

Q. Did the Staff's proposed adjustment in Case No. GR-96-227 (ANG's 1995/1996 ACA period) of $254,476 constitute the first of three adjustments of a total proposed adjustment of $664,824 to the Missouri allocated LNG and NGPL non-S2 storage withdrawal costs which were reflected in ANG's LNG and NGPL storage accounts on December 1, 1995?

A. Yes.

Q. Was the Staff's proposed adjustment of $254,476 and correspondingly, the issue of ANG's double recovery of LNG and NGPL non-S2 storage withdrawal costs fully litigated in ACA Case No. GR-96-227?

A. Yes. The Commission agreed with the Staff and ordered ANG to reduce its SEMO District gas costs by $254,476.

Q. Are the circumstances, facts, rationale, and relevant information in this ACA case, Case No. GR-97-191 identical to the circumstances, facts, rationale, and relevant information in ACA Case No. GR-96-227?

A. Yes, with the exception of the level of the Staff's proposed disallowance ($382,162 versus $254,476). The Staff, in order to address the concerns of the Commission (expressed in its Order in Case No. GR-96-227) with regard to documents which the Staff may have failed to obtain or failed to review, submitted Data Request No. 60 to ANG. ANG's response to Staff Data Request No. 60 does not provide any new rationale, facts, or relevant information (dated prior to or after July 8, 1982) which the Staff has not already reviewed or of which the Staff was not already aware.

Q. Were you the only Staff witness in Case No. GR-96-227?

A. Yes.

Q. Please describe Schedules 2, 3, 4, 5, 6, and 7 which are attached to your direct testimony.

A. Schedules 2, 3, and 4, attached to my direct testimony, are copies of my direct, rebuttal, and surrebuttal testimony, respectively, from Case No. GR-96-227. Schedule 5, attached to my direct testimony, is a copy of page 57 to page 83 of the April 7, 1998 transcript of the Commission hearing with regard to Case No. GR-96-227 wherein I gave on-the-record oral testimony in support of the Staff's proposed $254,476 adjustment.

Schedules 6 and 7, attached to my direct testimony, are copies of the June 1982 NGPL bundled gas invoice to ANG and the February 1982 NGPL bundled gas invoice to ANG, respectively. Schedules 6 and 7 were provided by ANG in response to Staff Data Request No. 60. They clearly show that in the pre-Order 636 environment (bundled sales, storage, and transportation service) which was in effect prior to July 8, 1982 (the date on which ANG changed its tariffs in order to implement the Commission approved ACA true-up process]: (1) storage injections were included or added to the pipeline invoices (see Schedule 6); and (2) storage withdrawals were excluded or subtracted from the pipeline invoices (see Schedule 7). Thus, it is clear that (under its MOPSC tariffs) ANG automatically received (prior to July 8, 1982) an up-front recovery of all storage withdrawal costs. As a result, ANG has already recovered the $664,824 of Missouri allocated LNG and NGPL non-S2 storage withdrawal costs which were reflected in ANG's storage accounts on December 1, 1995 (the date on which ANG changed its ACA recovery methodology for storage withdrawal costs from an up-front method to an as-used method).

Schedules 2, 3, 4, and 5, attached to my direct testimony, contain all the facts, circumstances, rationale, and relevant information which the Staff presented to the Commission in Case No. GR-96-227. Due to the identical nature of the Staff's position, including the supporting documentation, between Case No. GR-96-227 and Case No. GR-97-191, the Staff believes that it is more expeditious to attach the relevant information as Schedules 2 to 5 to my direct testimony, rather than repeat them.

Q. Please summarize your direct testimony.

A. Staff urges the Commission to issue the same order in this case, Case No. GR-97-191 as the order which it issued in Case No. GR-96-227. Staff believes that the Commission would be correct in taking this approach because (1) Staff's proposed adjustment of $382,162 represents a continuation (it is the second adjustment to the $664,824 in ANG Missouri allocated LNG and NGPL non-S2 storage withdrawal costs which were reflected in ANG's LNG and NGPL storage accounts on December 1, 1995) of the $254,476 adjustment proposed by the Staff in Case No. GR-96-227 wherein the Commission, in its order, agreed with the Staff that ANG was engaged in a double recovery of LNG and NGPL non-S2 storage withdrawal costs and (2) the circumstances, facts, rationale, and relevant information in this ACA case, Case No. GR-97-191 are identical to the circumstances, facts, rationale, and relevant information in ACA Case No. GR-96-227.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Associated Natural Gas Company's Tariff Revision to be Reviewed in its 1996-1997 Actual Cost Adjustment.	)))	Case No. GR-97-191

AFFIDAVIT OF MICHAEL J. WALLIS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Michael J. Wallis, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

RANDALL Z. WRIGHT NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

Michael J. Wallis
MICHAEL J. WALLIS

Subscribed and sworn to before me this 24th day of June 1999.

Randall Z. Wright
Notary Public

Randall Z. Wright
Notary Public, State of Missouri
County of Cole
My Commission Exp. 01/02/2001

My Commission Expires:

SUMMARY OF RATE CASE INVOLVEMENT

MICHAEL J. WALLIS

COMPANY NAME	CASE NO.
St. Joseph Light & Power Company	GR-88-115
Capital City Water Company	WR-88-215
GTE North Incorporated	TR-89-182
The Empire District Electric Company	WR-90-56
The Empire District Electric Company	ER-90-138
Ozark Natural Gas Company	GA-90-321
United Cities Gas Company	GR-91-249
St. Joseph Light & Power Company	EC-92-214
Western Resources Inc.	GR-93-140
Tartan Energy Company, L.C.	GA-94-127
Associated Natural Gas Company	GR-94-189
Associated Natural Gas Company	GR-95-213
Missouri Public Service	GR-95-273
Union Electric Company	EM-96-149
Laclede Gas Company	GR-96-181
Missouri Public Service	GR-96-192
Laclede Gas Company	GR-96-193
Associated Natural Gas Company	GR-96-227
Missouri Gas Energy	GR-96-450
Atmos Energy Corporation and United Cities Gas Company	GM-97-70
Associated Natural Gas Company	GR-97-272
Missouri Gas Energy	GO-97-409
United Cities Gas Company	GO-97-410
Missouri Gas Energy	GC-98-335
Laclede Gas Company	GR-98-374
Laclede Gas Company	GT-99-303
Laclede Gas Company	GR-99-315

SCHEDULE 1

DIRECT TESTIMONY

OF

MICHAEL J. WALLIS

ASSOCIATED NATURAL GAS COMPANY

CASE NO. GR-96-227

Q. Please state your name and business address.

A. Michael J. Wallis, P.O. Box 360, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Please describe your educational and professional background.

A. I graduated from Central Missouri State University at Warrensburg, Missouri and received a Bachelor of Science degree in Business Administration, with a major in Accounting, in July, 1986. I am currently a licensed Certified Public Accountant in the state of Missouri.

Q. What has been the nature of your duties while in the employ of the Commission?

A. Under the direction of both the Manager of the Accounting Department (August 1987 to November 1992) and the Manager of the Procurement Analysis Department (October 1993 to the current time), I have assisted with audits and examinations of the books and records of utility companies operating within the state of Missouri.

Q. Have you previously filed testimony before this Commission?

A. Yes. Schedule 1, attached to my direct testimony, is a list of cases in which

I have filed testimony before this Commission.

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to support the Staff's proposed storage withdrawal adjustment of $254,476 to Associated Natural Gas Company (ANG or Company) SEMO District gas costs.

Q. Please discuss the Staff's proposed storage withdrawal adjustment to ANG's SEMO District gas costs.

A. On December 1, 1995, ANG changed its Actual Cost Adjustment (ACA) recovery methodology with regard to Liquefied Natural Gas (LNG) storage and Natural Gas Pipeline Company (NGPL) non-S2 storage by showing both the injections and withdrawals of gas as separate components in its ACA filing. Prior to December 1, 1995, ANG did not reflect the LNG and NGPL non-S2 storage injections or storage withdrawals as separate components of the ACA filing, but instead ANG accounted for the storage injections and storage withdrawals as part of the invoiced flowing supplies in the months in which the gas was purchased by ANG.

Staff agrees with ANG's decision to change its ACA recovery methodology with regard to the LNG and NGPL non-S2 storage accounts because (1) ANG uses this same ACA recovery methodology with regard to all of its other (PEPL, TETC, MRT, ANR, and NGPL S2) storage accounts and (2) the majority of the other Local Distribution Company's (LDC) in Missouri also use the same ACA recovery methodology as ANG is proposing to use for the LNG and NGPL non-S2 storage accounts and which ANG already uses for its other storage accounts. However, Staff believes that ANG's approach

of changing its storage recovery methodology over a one month period ignores the fact that the only storage withdrawals that should be shown in the filing are those associated with gas supplies injected into storage after December 1, 1995 and thus, results in ANG receiving a double recovery of all LNG and NGPL non-S2 gas withdrawn from storage during the 1995-1996 ACA period.

Staff believes that all withdrawals of gas, shown in ANG's 1995-1996 ACA filing, with regard to LNG and NGPL non-S2 storage should be removed from the filing. As a result, Staff is proposing an adjustment to reduce the SEMO District's Firm customer gas costs by $234,909 ($109,337 for LNG storage withdrawals and $125,572 for NGPL non-S2 storage withdrawals) and to reduce the SEMO District's Interruptible customer gas costs by $19,567 ($9,451 for LNG storage withdrawals and $10,116 for NGPL non-S2 storage withdrawals). Thus, Staff is proposing to reduce the SEMO District gas costs by a total of $254,476.

Q. Please give an example of (1) the manner in which ANG recovered the amounts in its LNG and NGPL non-S2 storage accounts prior to December 1, 1995, (2) the manner in which ANG currently recovers the amounts in its other storage accounts, and (3) the manner in which ANG has recovered, in this 1995-1996 ACA filing, the amounts in its LNG and NGPL non-S2 storage accounts.

A. During an injection month, ANG would receive an invoice (which for my example I will assume is $1,000) for the gas supplies which it purchased from a marketer or supplier. A portion of the $1,000 commodity gas cost amount (which for my for example I will assume is $700) would flow immediately to ANG's city gate. The

Schedule 2.3

remainder of the $1,000 commodity gas cost amount (which for my example I will assume is $300) would be injected into storage. The $300 commodity gas cost amount which was injected into storage would subsequently be withdrawn from storage during a withdrawal month and would flow to ANG's city gate at that time.

Prior to December 1, 1995, ANG would have recovered the amounts in its LNG and NGPL non-S2 storage accounts by (1) including the entire $1,000 commodity gas cost amount in its ACA filing and (2) excluding from the ACA filing the subsequent withdrawal, from storage, of the $300 commodity gas cost amount which had previously been injected into storage. Thus, ANG would have, in effect, received up-front recovery of the entire $1,000 commodity gas cost amount.

ANG currently recovers the amounts in its other storage accounts by (1) including in its ACA filing only the $700 portion, of the total $1,000 commodity gas cost amount, which flows immediately to the city gate and (2) including, as part of the total cost of gas shown in the ACA filing, the withdrawal of the $300 commodity gas cost amount which had previously been injected into storage. Thus, ANG currently recovers the $1,000 commodity gas cost amount at the time the gas supplies are used by its customers.

ANG has recovered, in this 1995-1996 ACA filing, the amounts in its LNG and NGPL non-S2 storage accounts by (1) including the entire $1,000 commodity gas cost amount in its ACA filing and (2) including, as part of the total cost of gas shown in the ACA filing, the withdrawal of the $300 commodity gas cost amount which had previously been injected into storage. Thus, ANG has received a double-recovery of the $300 commodity gas cost amount which was initially injected into storage. ANG recovered the

Schedule 2.4

$300 commodity gas cost injection amount in an up-front fashion because the $1,000 invoiced commodity gas cost amount, shown in the ACA filing, was not reduced by $300 at the time the gas was injected into storage and ANG recovered the $300 commodity gas cost injection amount again when it was subsequently withdrawn from storage and included as part of the total cost of gas in the ACA filing.

Q. You have previously indicated that you agree with ANG's decision to change its ACA recovery methodology with regard to the LNG and NGPL non-S2 storage accounts, but you disagree with ANG's approach of changing ACA recovery methodologies within a one month period. How do you recommend that ANG change its ACA recovery methodology with regard to the LNG and NGPL non-S2 storage accounts and at the same time avoid the double recovery of storage costs which you have previously discussed?

A. I recommend that ANG, beginning on December 1, 1995 (1) reduce the gas supply invoices, which are reflected in the 1995-1996 ACA filing and any future ACA filings, by the amount of any gas which is injected into the LNG and/or NGPL non-S2 storage accounts, (2) exclude, from the 1995-1996 ACA filing and any future ACA filings, the amount of any gas withdrawn from the LNG and/or NGPL non-S2 storage accounts which was injected prior to December 1, 1995, and (3) include, in the 1995-1996 ACA filing and any future ACA filings, the amount of any gas withdrawn from the LNG and/or NGPL non-S2 storage accounts which was injected after December 1, 1995. This approach will allow ANG to change its ACA recovery methodology with regard to the

Schedule 2.5

LNG and non-S2 storage accounts gradually over a period of time without causing a double recovery problem.

Q. Please summarize your direct testimony.

A. On December 1, 1995, ANG changed its ACA recovery methodology with regard to LNG storage and NGPL non-S2 storage by showing both the injections and withdrawals of gas as separate components in its ACA filing. Prior to December 1, 1995, ANG did not reflect the LNG and NGPL non-S2 storage injections or storage withdrawals as separate components of the ACA filing, but instead ANG accounted for the storage injections and storage withdrawals as part of the invoiced flowing supplies in the months in which the gas was purchased by ANG.

Staff believes that ANG's approach of changing its storage recovery methodology over a one month period ignores the fact that the only storage withdrawals that should be shown in the filing are those associated with gas supplies injected into storage after December 1, 1995 and thus, results in ANG receiving a double recovery of all LNG and NGPL non-S2 gas withdrawn from storage during the 1995-1996 ACA period. As a result, Staff is proposing an adjustment to reduce the SEMO District's Firm customer gas costs by $234,909 and to reduce the SEMO District's Interruptible customer gas costs by $19,567.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Schedule 2.6

SUMMARY OF RATE CASE INVOLVEMENT

MICHAEL J. WALLIS

COMPANY NAME	CASE NO.
St. Joseph Light & Power Company	GR-88-115
Capital City Water Company	WR-88-215
GTE North Incorporated	TR-89-182
The Empire District Electric Company	WR-90-56
The Empire District Electric Company	ER-90-138
Ozark Natural Gas Company	GA-90-321
United Cities Gas Company	GR-91-249
St. Joseph Light & Power Company	EC-92-214
Western Resources Inc.	GR-93-140
Tartan Energy Company, L.C.	GA-94-127
Associated Natural Gas Company	GR-94-189
Associated Natural Gas Company	GR-95-213
Missouri Public Service	GR-95-273
Union Electric Company	EM-96-149
Missouri Public Service	GR-96-192
Laclede Gas Company	GR-96-193
Atmos Energy Corporation and United Cities Gas Company	GM-97-70
Associated Natural Gas Company	GR-97-272
Missouri Gas Energy	GO-97-409
United Cities Gas Company	GO-97-410

SCHEDULE 1

Schedule 2.7

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of Associated Natural Gas Company's tariff revisions to be reviewed in its 1996-1996 Actual Cost Adjustment.	)))	Case No. GR-96-227

AFFIDAVIT OF MICHAEL J. WALLIS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Michael J. Wallis, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

michael j. wallis
MICHAEL J. WALLIS

Subscribed and sworn to before me this 20th day of November, 1997.

Roberta A. McKiddy
Notary Public

My Commission Expires:

ROBERTA A. McKIDDY
Notary Public, State of Missouri
County of Cole
My Commission Expires 09/11/99

Schedule 2.8

REBUTTAL TESTIMONY

OF

MICHAEL J. WALLIS

ASSOCIATED NATURAL GAS COMPANY

CASE NO. GR-96-227

Q. Are you the same Michael J. Wallis who filed direct testimony in this case?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is respond to the direct testimony of Associated Natural Gas Company (ANG or Company) witness Mark S. Kidd.

Q. Do you agree with Mr. Kidd's characterization, on Page 7, Lines 1 to 9 of his direct testimony, of the Staff recommendation in Case No. GR-93-169?

A. Yes. However, I would point out that the Staff recommendation in Case No. GR-93-169 does not mention a specific time by which ANG was required to change its Actual Cost Adjustment (ACA) recovery methodology with regard to the NGPL non-S2 and Liquefied Natural Gas (LNG) storage accounts. In fact, ANG did not actually change its ACA recovery methodology for the NGPL non-S2 and LNG storage accounts until December 1, 1995 (two years after Staff made its recommendation in Case No. GR-93-169), the date ANG converted from the NGPL S-2 and non-S2 storage services to the new NGPL DSS and NSS storage services.

The Staff recommendation in Case No. GR-93-169 did state "The Company should adjust gas costs in future ACA filings to account for storage injections and withdrawals on the NGPL system". This statement is vague at best with regard to a specific time period for making the change in ACA recovery methodology and it does not

Schedule 3.1

even mention the LNG storage account.

Q. Do you agree with Mr. Kidd where on Page 12, Lines 6 to 8 of his direct testimony he implies that Staff is planning to disallow the entire $827,927 balance of NGPL non-S2 and LNG gas costs in storage as of November 30, 1995?

A. No. Mr. Kidd does not mention that only a portion of the $827,927 NGPL non-S2 and LNG gas costs in storage as of November 30, 1995 will be allocated to ANG's Missouri ratepayers. The $827,927 balance, mentioned by Mr. Kidd, with regard to the NGPL non-S2 and LNG gas costs in storage as of November 30, 1995 is composed of $435,019 of NGPL non-S2 storage costs and $392,908 of LNG storage costs. The NGPL non-S2 storage costs, when they are eventually withdrawn, will be allocated 100% to ANG's Missouri ratepayers, whereas the LNG storage costs, when they are eventually withdrawn, will be allocated at approximately 58% to ANG's Missouri ratepayers. Thus, Staff is actually seeking to, eventually, disallow approximately $663,000 in ($435,019 of NGPL non-S2 and $228,000 of LNG) storage withdrawal costs.

Staff, in this case, proposes to disallow only the portion ($254,476) of the total $663,000 balance of NGPL non-S2 and LNG gas costs in storage as of November 30, 1995 which was withdrawn during the 1995-1996 ACA period. If the Commission decides in Staff's favor with regard to its Order in Case No. GR-96-227, the Staff will propose additional disallowances in future ACA cases of approximately $409,000.

Q. Do you have any comments with regard to Schedule MSK-3 which is attached to the direct testimony of Mr. Kidd?

A. Yes. Staff would point out that Schedule MSK-3 shows that ANG, as of

Schedule 3.2

September 1, 1982, had a positive withdrawal balance of $835,859. Staff is concerned that prior to July 8, 1982 (the date when ANG began recovering its procurement gas costs through the ACA true-up mechanism), ANG recovered approximately $663,000 of Missouri allocated storage withdrawal costs in an up-front fashion [which was allowed by its then effective Missouri PSC Purchased Gas Adjustment (PGA) tariffs] by charging its Missouri customers an estimated PGA rate which was based on a determination of the Company's average cost of gas by using the most recent supplier invoices (see Schedule 1 attached to my rebuttal testimony). ANG, by using the most recent supplier invoices, would clearly have been recovering the storage costs in an up-front fashion (the pre July 8, 1982 tariff language does not state that ANG was to use the most recent supplier invoices less storage injections) similar to its pre December 1, 1995 storage recovery methodology with regard to the NGPL non-S2 and LNG storage accounts.

Q. Please explain Schedule 1 which is attached to your rebuttal testimony.

A. Schedule 1, attached to my rebuttal testimony, is canceled Missouri PSC PGA tariff sheet Number 44 and it served as ANG's PGA Clause for the SEMO District for the period of June 2, 1978 (effective date of the tariff sheet) to July 8, 1982 (date when the tariff sheet was canceled and replaced). Thus, Schedule 1 contains ANG's pre July 8, 1982 tariff language with regard to the recovery treatment of storage injection and withdrawal costs.

Q. Please summarize your rebuttal testimony.

A. The Staff recommendation in Case No. GR-93-169 states "The Company should adjust gas costs in future ACA filings to account for storage injections and

Schedule 3.3

withdrawals on the NGPL system". This statement is vague at best with regard to a specific time period for making the change in ACA recovery methodology and it does not even mention the LNG storage account.

Staff, in this case, proposes to disallow only the portion ($254,476) of the total $663,000 balance of NGPL non-S2 and LNG gas costs in storage as of November 30, 1995 which were withdrawn during the 1995-1996 ACA period. If the Commission decides in Staff's favor with regard to its Order in Case No. GR-96-227, the Staff will propose additional disallowances in future ACA cases of approximately $409,000.

Staff is concerned that prior to July 8, 1982 (the date when ANG began recovering its procurement gas costs through the ACA true-up mechanism), ANG recovered approximately $663,000 of Missouri allocated storage withdrawal costs in an up-front fashion by charging its Missouri customers an estimated PGA rate which was based on a determination of the Company's average cost of gas by using the most recent supplier invoices (not by using the most recent supplier invoices less storage injections).

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

Schedule 3.4

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of Associated Natural Gas Company's tariff revisions to be reviewed in its 1996-1996 Actual Cost Adjustment.	)))	Case No. GR-96-227

AFFIDAVIT OF MICHAEL J. WALLIS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Michael J. Wallis, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

RANDALL Z. WRIGHT NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

michael J. Wallis
MICHAEL J. WALLIS

Subscribed and sworn to before me this 21st day of January, 1998.

Randall Z. Wright
Notary Public

Randall Z. Wright
Notary Public, State of Missouri
County of Cole
My Commission Exp. 01/02/2001

My Commission Expires: _____

Schedule 3.5

FORM NO. 13 P. S. C. MO. No. 5 original SHEET No. 44

CANCELLING P. S. C. MO. No. All Previous Schedules SHEET No.

ASSOCIATED NATURAL GAS COMPANY FOR See Index

COMMUNITY, TOWN OR CITY

1978

MISSOURI

GAS RATE SCHEDULE
PURCHASED GAS ADJUSTMENT CLAUSE (PGA)

The charges which the Company makes for gas shall be subject to increases or decreases because of increases or decreases in the cost of gas charged by any or all suppliers serving areas described as follows:

Cape Girardeau, Dunklin, Iron, Mississippi, New Madrid, Pemiscot, Ripley, Scott, Stoddard, and Wayne Counties in Missouri: and Clay Craighead, Greene, and Mississippi Counties in Arkansas.

A. Each month the Company will determine its average cost of gas by using the most recent supplier invoices to compute the appropriate adjustment applicable to its rates as follows:

1. The cost of gas purchased in the most recent twelve month period shall be priced on two bases:

   (a) at the wholesale base rates of - Demand: $2.0905 per Mcf per month; Commodity: [illegible], and

   (b) at the wholesale rates in effect during the most recent purchase month.

2. The difference in annual cost determined above shall be divided by the CCF sold during the same twelve month period and the rate per CCF determined to the nearest $ .00001 will be used as a net adjustment applicable to monthly billings under all of the Company's Gas Rate Schedules not having a purchased gas adjustment clause as part of the schedule. When the Company pays a legally imposed franchise tax based upon gross revenue, the adjustment computed above shall be increased to recover the associated increase in franchise tax.

3. The adjustment so determined shall be applied to customer's billing in the next following revenue month.

B. Each month before applying any purchased gas adjustment, the Company shall transmit to the Commission an Adjustment Statement showing:

1. The computation of the amount of the annual increase or decrease in the cost of purchased gas as determined above.

2. The rate per CCF to be used in computing the Net Adjustment to Company's Gas Service Schedules.

CANCELLED
JUL - 8 1982
BY DGC 6
PUBLIC SERVICE COMMISSION OF MISSOURI

GAS AUTHORITY
ORDER NO. 675

DATE OF ISSUE May 19, 1978 DATE EFFECTIVE JUN 2 1978

ISSUED BY E. E. Brown (NAME OF OFFICER) Treasurer (TITLE) Sikeston, Missouri (ADDRESS)

Schedule 3.6

Schedule 1

SURREBUTTAL TESTIMONY

OF

MICHAEL J. WALLIS

ASSOCIATED NATURAL GAS COMPANY

CASE NO. GR-96-227

Q. Are you the same Michael J. Wallis who filed direct and rebuttal testimony in this case?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is respond to the rebuttal testimony of Associated Natural Gas Company (ANG or Company) witness Mark S. Kidd.

Q. Do you agree with Mr. Kidd where on Page 8, Lines 5 to 7 of his rebuttal testimony, he states "Staff in this case does not allege recovery prior to the onset of ACA [Actual Cost Adjustment] recovery; instead, Staff alleges that the disallowed amounts had been recovered during existence of the ACA process"?

A. No. It is the Staff's position that the disallowed storage withdrawal amount ($254,476) has been double-recovered by ANG in its 1995/1996 ACA filing. The Company has already recovered this storage withdrawal amount as a result of its use (both before and after July 8, 1982) of an up-front storage recovery methodology which allows ANG to recovery its storage withdrawal costs as volumes are injected into storage.

As I indicated in my rebuttal testimony, Staff is concerned that prior to July 8, 1982 (the date when ANG began recovering its procurement gas costs through the ACA true-up mechanism), ANG recovered approximately $663,000 (ANG's total-company amount is $835,859) of Missouri allocated storage withdrawal costs in an up-front fashion by charging

Schedule 4.1

its Missouri customers a tariffed estimated Purchased Gas Adjustment (PGA) rate (approved by the Commission) which was based on a determination of the Company's average cost of gas by using the most recent supplier invoices (including gas supplies injected into storage).

Thus, despite the NGPL non-S2 and LNG storage balance of $835,859 which Mr. Kidd claims (throughout his rebuttal testimony) was unrecovered (per ANG's books) as of September 1, 1982 and of which amount $827,927 allegedly remained unrecovered (per ANG's books) as of November 30, 1995, the Company by following its pre July 8, 1982 Missouri PSC PGA tariffs has, in a previous period, already recovered the entire $835,859 balance of NGPL non-S2 and LNG storage withdrawal costs. In addition, Staff would point out that it is difficult to understand how ANG could have a booked capitalized (asset) inventory balance of $835,859 as of September 1, 1982 (or $827,927 as of November 30, 1995) when the Company has always expensed its storage costs, in an up-front fashion, as the gas supplies are purchased from the supplier and injected into storage.

Q. Please summarize your surrebuttal testimony.

A. Despite the NGPL non-S2 and LNG storage balance of $835,859 which Mr. Kidd claims was unrecovered (per ANG's books) as of September 1, 1982 and of which amount $827,927 remained unrecovered (per ANG's books) as of November 30, 1995, the Company by following its pre July 8, 1982 Missouri PSC PGA tariffs has, in a previous period, already recovered the entire $835,859 balance of NGPL non-S2 and LNG storage withdrawal costs.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of Associated Natural Gas Company's Tariff Revisions to be Reviewed in its 1995-1996 Actual Cost Adjustment.	)))	Case No. GR-96-227

AFFIDAVIT OF MICHAEL J. WALLIS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Michael J. Wallis, is, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 2 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

RANDALL Z. WRIGHT NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

michael J. Wallis
MICHAEL J. WALLIS

Subscribed and sworn to before me this 27th day of February 1998.

Randall Z. Wright
Notary Public

My Commission Expires: Randall Z. Wright Notary Public, State of Missouri County of Cole My Commission Exp. 01/02/2001

Schedule 4.3

Q. Okay. So are there any -- are there any missing documents in this case that you're aware of or that you -- is there any documenting anywhere that you wanted to find that you could not find?

A. No.

MR. DUFFY: That's all I have, your Honor.

JUDGE GEORGE: Thank you.

And, Mr. Kidd, you can step down.

(Witness excused.)

JUDGE GEORGE: Off the record.

(A recess was taken.)

JUDGE GEORGE: On the record, please.

We're continuing with the testimony of Staff witness, Mr. Wallis.

Mr. Wallis, would you please state your full name for the record?

MR. WALLIS: Michael J. Wallis.

JUDGE GEORGE: Please raise your right hand.

(Witness sworn.)

JUDGE GEORGE: Thank you, and be seated.

Ms. McGowan?

MICHAEL J. WALLIS testified as follows:

DIRECT EXAMINATION BY MR. McGOWAN:

Q. Can you state your name and business address for the record?

Schedule 5.1

A. Michael J. Wallis, P.O. Box 360, Jefferson City, Missouri, 65102.

Q. Are you the same Michael J. Wallis that prepared and caused to be pre-filed direct, rebuttal and surrebuttal testimony in this proceeding?

A. Yes, I am.

Q. And is your surrebuttal -- or excuse me -- direct, rebuttal and surrebuttal testimony now marked Exhibits 5, 6 and 7 respectively?

A. Yes.

Q. Do you have any corrections to make to those exhibits?

A. No.

Q. If I were to ask you the questions contained in those exhibits today, would your answers be the same as contained in those exhibits?

A. Yes.

Q. And are those answers true and accurate to the best of your belief and knowledge?

A. Yes.

MS. McGOWAN: Then I offer Exhibits 5, 6 and 7 into the record, and tender the witness for cross-examination.

JUDGE GEORGE: Are there any objections to the admission of 5, 6 and 7?

Schedule5.2

MR. DUFFY: No objection, your Honor.

JUDGE GEORGE: Exhibits 5, 6 and 7 are received into the record.

(EXHIBIT NOS. 5, 6 AND 7 WERE RECEIVED INTO EVIDENCE.)

JUDGE GEORGE: Mr. Duffy, you may proceed.

MR. DUFFY: I have no questions for this witness, your Honor.

QUESTIONS BY JUDGE GEORGE:

Q. Mr. Wallis, can you outline briefly the -- and before you do that, you have reviewed the pre-filed testimony of Mr. Kidd in this case?

A. Yes, I've read it.

Q. And can you briefly summarize the major weakness you see in that reasoning of that testimony?

A. Well, obviously I disagree with Mr. Kidd's interpretation of Tariff Sheet 44, with which I believe -- let me briefly turn to the tariff sheet.

On Sheet 44, which is attached to my rebuttal testimony, underneath Part A it says, "Each month the Company will determine its average cost of gas by using the most recent supplier invoices to compute the appropriate adjustment applicable to its rates as follows."

I believe that the most recent supplier

Schedule 5.3

invoices in the pre-Order 636 environment, that would have -- that would have been from the pipeline. Again, prior to Order 636, the transportation function, the storage function and the actual supply itself was all provided by the pipeline, and so it's clear to me that you're calculating your rate based on storage costs. And what -- what goes on here is there is a comparison of the wholesale base rates to -- and then it's updated to compare that to current. Well, again, that's also going to include storage costs. So that's -- that's -- that's my interpretation of Tariff Sheet 44.

And, again, as has been pointed out, by -- in Mr. Kidd's testimony, they don't have the sheets. They didn't retain the sheets that are -- that are -- relate back to this time. And another thing that really concerns me is -- is how -- why would an LDC wait 15 years to try to collect this -- this pre-existing balance that's -- that's on their books when they convert from the PGA approach to the ACA PGA? That doesn't make any sense to me. I've never seen an LDC do anything other than try to collect those moneys immediately.

Q. And you referred to this Tariff Sheet 44. There is a line that's very difficult to read because

Schedule 5.4

of the stamp on that. It's under Paragraph A, Line -- Part 1, Subparagraph A. Can you make out what that -- how that line reads?

A. I think it says "commodity," and there is a dollar sign, and it looks like that's ".7634," and I'm not even sure I can --

MR. DUFFY: I think it says "per Mcf."

MS. McGOWAN: Yeah.

THE WITNESS: Okay. That could be.

MR. DUFFY: And then a semicolon.

JUDGE GEORGE: Okay.

BY JUDGE GEORGE:

Q. And, Mr. Wallis, if Company had never switched methods from the injection to the withdrawal method, when would the Company recover those storage amounts?

A. Well, I think that -- again, that they've already recovered those amounts. They've been recovering those since prior to the July 8th, 1982 tariff revision. The reason that there is a withdrawal balance of -- depending on which version of Mr. Kidd's testimony you look at -- I guess the right one would be the one in surrebuttal -- but there is an $835,000 balance sitting there, or like a $670,000 balance sitting there.

Schedule 5.5

What that means is that injections were larger than the withdrawals, so you have a -- you have a withdrawal balance there. But, again, based on my interpretation of these tariffs, that amount was recovered when the gas was actually purchased. So they are already getting it.

And the other important thing here is that -- is that there is a difference between what a company may do on its books for financial reporting purposes and how it recovers those amounts through either -- either the ACA PGA process or potentially a rate-case situation.

Q. So to clarify that, when exactly did the Company recover that inventory balance?

A. In my deposition, I think I indicated that because of the nature of the method that they use, which is weighted average, that that could go back to 1960 when the PGA process started, when they started to actually purchase the gas. And, again, I believe that it's been recovered up-front.

But I looked -- after I looked at my deposition and I thought about that, I think it really depends on whether the -- whether or not the Company cycled its storage, and my understanding in most -- in most cases with LDCs, they don't completely cycle the

Schedule 5.6

storage. There will be a piece left over, so the incremental piece, you know, may very well go back to 1962, but the majority of that -- of that balance probably was recovered over the course of the last injection and withdrawal season, which would have been 1981, 1982 time frame.

QUESTIONS BY CHAIR LUMPE:

Q. Mr. Wallis, I hesitate to ask a question for fear that you've already answered it, but in listening to your -- what I've heard since I came in, you're saying that there -- they did recover that alleged amount of capacity back in 1982, but somewhere between maybe '60 and '82 they did recover it? Is that what you --

A. Yeah. My position is that they would have recovered it. The question here isn't so much whether they recovered it or not, but it goes to the question that there is an $835,000 balance there and when it was recovered.

But the answer to the question really is that they recovered that when they -- when they actually purchased the gas, because the up-front recovery methodology that they used allows them to, by using the most recent supplier invoices, allows them to calculate a rate based on a cost of gas that

Schedule 5.7

already includes the storage. So they've -- they've really recovered it in an up-front fashion. And even though there is a withdrawal balance sitting there, they've already received it.

And I've got an example of kind of the way this works in my direct testimony that I can -- I can go through that, if that would be helpful.

Q. I think that was very clear.

A. Okay.

Q. I just want -- the issue seems to be where did this 800 -- where did this capacity -- when did it begin and why was it not recovered over this long period of time? If the methodology that had always been used was to recover it when it was injected, then why wasn't it recovered, and that seems to me to be the crux of the issue, and the evidence -- I guess I'm looking for the evidence that it was or was not recovered, and I don't see an answer that tells me we recovered it this year under this process and at this time.

And the suggestion is that there is still this 15-year-old recovery that needs to take place, which I would think would be rather strange, but that's what we're suggesting that we should assume, and -- but what you're saying is that given that they

Schedule 5.8

recovered it at the beginning of the year through history, you're suggesting that it was recovered?

A. Yes. And your point is -- is -- is very astute that the Company is telling us that there is a balance on their books that goes back to 1982 that they haven't recovered yet, so the Company has waited 15 years to come in and seek recovery for this money, and I -- that's -- that's very, very strange to see an LDC wait 15 years to recover any money at all.

The normal scenario is that they know that they're out the money, and they'll come in and they'll find some way to get that. And I guess my -- my view of this is that they didn't wait 15 years to recover the money, but because they already had recovered it.

Q. That a good management practice would have been to recover it through the ACA or a rate case or something?

A. Yes, through some mechanism, yes.

CHAIR LUMPE: Thank you, Mr. Wallis.

FURTHER QUESTIONS BY JUDGE GEORGE:

Q. And, also, Mr. Wallis, at what point do you disagree with the calculations set forth in Mr. Kidd's surrebuttal testimony?

A. Are you asking me if I believe his -- his calculations are -- are accurate?

Schedule 5.9

I think -- I think they are accurate in terms of he's trying to show what the book balance is. But, again, there is a difference between what you -- what you have on your books and what you actually are seeking recovery for through, again, a rate case process or an ACA PGA. So I'm not denying the existence of the balance. It's a question of the timing of when they would have recovered that.

Q. So you don't point to a specific item in the calculations that you disagree with?

A. No, because the balance does -- it doesn't exist to begin with, and Mr. Kidd goes back and makes some adjustments to the $835,000 balance, but the adjustments -- if they've already recovered the balance, the adjustments that they're making to the balance are -- they are not -- they are not necessary because they've recovered it for purposes of the PGA and the ACA PGA after -- after July 8th of 1982.

Q. And how is it that you reconcile your testimony in this case with that of the rate case as far as any inconsistencies?

A. Yeah. The Company has pointed out that they think there is an inconsistency between what we did in the ACA PGA case and what we did in the rate case, that's correct. There really is no inconsistency

Schedule 5.10

because for rate case purposes, it's -- once the Company changed its recovery balance -- its recovery methodology on December 1st of 1995; they -- they were -- at that point they were using the withdrawal method. And what happens is, they are not recovering up-- they are not recovering the balance up-front. They are recovering at -- they are recovering it as the gas is actually withdrawn from the storage, flowed to the city gate and used by the customers. So under that method, you have a balance -- you actually have a non-recovered balance sitting in storage that for rate case purposes it's necessary to give the Company carrying costs on it, so you treat it effectively as an asset. It goes into the rate base schedule in the -- in the accountant's EMS run.

And so that's -- we -- we took that approach. And, again, we're not denying the existence of the balances on the books, so the approach where we used -- as Mr. Duffy has accurately pointed out, we used historical prices and historical volumes, but that's a common practice to go to the books to develop a way of, in effect, kind of estimating for future periods what -- what is going to be the appropriate carrying cost balance. And that's all we're doing, is taking those historical numbers, which we don't deny

Schedule 5.11

the existence of, and using those to set rates in a rate case to be recovered over future periods until the Company comes in for another rate case.

JUDGE GEORGE: Further questions from the Bench. Madam Chairman?

CHAIR LUMPE: Just one more.

FURTHER QUESTIONS BY CHAIR LUMPE:

Q. You were talking about the balances that's agreed to, that that number and that balance is an agreed-upon number by both parties; is that correct?

A. The 835,000, yes.

Q. The question is, is it a 1982 balance or is it a December balance? Is that correct?

A. It is -- my understanding of Mr. Kidd's testimony -- which kind of brings up another issue which is that they claim that Staff's changed its approach in midstream -- what happened is that for the first time in Mr. Kidd's direct testimony was I aware that this balance was, in fact, related to 1982. So I went back to the tariffs that would have been in effect prior to that time and looked at those, and came to the conclusion that it's an up-front recovery methodology just like the one they were using between July 8th of 1982 and November 30th of 1995. So they have -- it's my view that they've always -- until

Schedule 5.12

December 1st of 1995, they've always been recovering this -- this storage up-front.

CHAIR LUMPE: Up-front.

JUDGE GEORGE: Commissioner Murray?

COMMISSIONER MURRAY: Thank you.

QUESTIONS BY COMMISSIONER MURRAY:

Q. The rate sheet that we have in -- as an attachment to Mr. Wallis's testimony, Sheet 44 --

A. Yes.

Q. -- that rate sheet did not reference gas in storage at all, did it?

A. No, it didn't. And it's not so much what the tariff sheet says as what it doesn't say. And my view is that it's implicit in the language that they're -- that they're getting up-front recovery for the storage because it says in Part A there that they will determine their average cost of gas by using the most recent supplier invoices.

In the pre-636 environment, the pipelines provided not only the storage and the transportation, but also the gas supplied itself. So it would be -- it would be in there. The storage cost would be in that -- in those invoices.

Q. And the sheet that you looked up that was prior to '82, did you enter that into evidence?

Schedule 5.13

A. Yeah, that -- that -- I believe that's attached as Schedule 1 to my rebuttal testimony. It would look like that (indicated).

Q. Well, that's 44?

A. Yeah.

Q. That's Sheet 44.

A. I may have misunderstood your question, but I -- I thought you -- you were getting at the sheet that was in effect prior to that. That is the sheet.

Q. I'm sorry. That is the sheet prior to '82?

A. Yeah.

Q. Did you -- do you have the sheet that took effect in 1982? Is that in evidence?

A. No, it's not. That -- that -- that sheet would basically institute the ACA true-up mechanism where you would take what was estimated and then true that up to actuals. And that's been in effect from 19-- from July 8th of 1982 to the current time.

Q. Okay. I'm still confused about some of your testimony.

On the one hand I think I hear you saying that prior to '82 they were recovering up-front?

A. That's correct.

Q. And I thought I also heard you say that this amount, this disputed amount, was recovered between

Schedule 5.14

'82 and '95?

A. The -- well, that -- that was my -- that was my interpretation of the Company's position initially myself. And in direct testimony for the first time Mr. Kidd brought up the fact that this -- that this inventory, which -- well, let me back up.

The process I went through is I -- when they changed their method on December 1st of 1995, I went back into the storage schedules in the ACA case to see what -- what balance was sitting in there that was injected prior to December 1st of 1995. And it was 835-- it was eight-hundred-twenty-seven-thousand and some -- some change.

And then I find out in Mr. Kidd's direct testimony that this actually goes back to December 1st of 1982. So I said, well -- I went back and looked at the tariff sheet and -- and came to the conclusion that prior to July 8th of 1982 they were recovering -- recovering the gas up-front just like they were recovering the gas up-front from July 8th of 1982 to November 30th of 1995.

So as I understand Mr. Kidd's testimony, the only thing that takes place between July 8th of 1982 and November 30th of 1995 is an incremental amount, which -- in the amount of about $7,900, that -- that's

Schedule 5.15

the difference between the injections and the withdrawals, and that -- and that brings the $835,000 balance down to the eight-twenty-seven that I actually came up with.

But -- but it really -- they haven't -- in my view they haven't used an up-front -- or they haven't used an as-withdrawn method until December 1st of 1995.

Q. So your claim is that that $835,000 balance or $827,000 balance should not have been there --

A. That's correct --

Q. -- as of --

A. -- for recovery purposes. My -- my view is that they've already recovered that as the gas was -- was purchased in prior periods.

Q. And do you have anything that shows us that they recovered that other than your interpretation of Sheet 44?

A. No.

COMMISSIONER MURRAY: Thank you.

JUDGE GEORGE: Other questions from the Bench?

(No response.)

JUDGE GEORGE: This will be recross based on questions from the Bench. Mr. Duffy?

Schedule 5.16

MR. DUFFY: Give me just a second, please.

JUDGE GEORGE: Yes.

MR. DUFFY: I'm going to try to few questions IF that's okay, your Honor.

JUDGE GEORGE: Yes, go ahead.

RECROSS-EXAMINATION BY MR. DUFFY:

Q. Please refer to the Sheet 44 that's attached to your testimony, Mr. Wallis.

A. Okay.

Q. If the current cost of gas on that sheet is equal to the base cost of gas, what would the resulting PGA factor be pursuant to that tariff sheet?

A. Well, to the extent you're talking about making an adjustment to the base gas cost to update it for differences between current and wholesale, it would be zero.

Q. Okay. You understand that there is a -- what I call a two-month lag in this tariff; is that correct?

A. Well, I -- I'm aware of No. 3 under A there, "The adjustment so determined shall be applied to customer's billing in the next following revenue," so yeah, there would be a lag.

Q. There would be a two-month -- there would be a two-month lag?

Schedule 5.17

A. One or two. That's -- that's possible.
Q. At that point, then, when it is applied, if you -- isn't it true that you apply this PGA factor to sales?
A. That's true.
Q. All right. And if, as you said, it's -- the factor is zero and you apply -- and you apply the zero factor to sales, then there would be no recovery as a result of that; is that correct?
A. That's true, but, again, you're still going to be getting recovery for those base rates, but you wouldn't have any -- any adjustment to it.
Q. If ANG purchased gas to inject in the month that this zero PGA factor was applied, would ANG recover any of its storage costs?
A. In my view they would because your -- you're talking about -- when you look at A, you're still using the most recent supplier invoices, and you've got -- you've got a historical level of gas costs there that would include supplies that came from the wellhead, from storage, whatever you've got in there, so all you're talking about is whether you would adjust it or not.
Q. Mr. Wallis, I've heard you testify a couple of times that ANG waited 15 years to ask for recovery

Schedule 5.18

of these amounts. I just want to ask you, didn't this -- this case didn't start by ANG filing some documents saying we want to recover $835,000 that we've been sitting on for 15 years. It started when you filed a recommendation saying you wanted to disallow $234,000 of gas costs; isn't that true?

A. Well, I would argue that it actually did start when ANG filed its ACA filing, and on December 1st of 1995 you began to see withdrawals of -- withdrawals of LNG and NGPL gas that was in storage prior to December 1st of 1995.

Q. Did we put something in that filing that said we want to recover 800,000 or 600,000 worth of storage costs.

A. You said that you wanted to recover 234,000, but the whole amount is actually over 800,000, and that would be an issue in this case and in future cases.

Q. Was that ACA filing any different than prior ACA filings, except for the fact that this timing method was changed in response to a Staff recommendation to change it? Was there anything fundamentally different in those ACA filings?

A. Well, the previous filings, the Company was not including either -- they were not showing either

Schedule 5.19

the injections or the withdrawals of the gas, and in this filing, they were, so there is -- there is certainly that difference.

Q. Okay. So this filing was the first time that you had any knowledge that there was any gas inventory in storage that the Company was claiming that was there and should be recovered in some fashion? Is that what you're saying?

A. Well, our -- I guess where you're headed with that, are you referring to the --

Q. Just answer the question and don't worry about where I'm headed.

A. Well, I'm aware of the -- there was a Staff recommendation, a previous Staff recommendation, that asked the Company to change its methodology, but this is the first time I was aware that there was a double-recovery situation going on.

Q. As -- and you're alleging a double recovery?

A. That's my opinion.

Q. In one of your prior answers -- I think it was perhaps to Judge George -- I thought I heard you say that ANG didn't have the sheets or the documents. Can you refresh my recollection as to what your testimony was about that? What documents are you alleging that --

Schedule 5.20

A. I was referring to Mr. Kidd's testimony where he -- he -- I think he references a Q and A from my deposition where I was asked if I had looked at those -- at the backup sheets, and he apparently tried to find those sheets himself at the Company and they couldn't find them.

Q. Okay.

A. So that's what I was referring to.

Q. All right. And did you hear Mr. Kidd also testify that he came up to Jefferson City and looked in the microfiche records of the Commission for their filings?

A. Yes.

Q. And he found those documents?

A. Yes. I believe that's in his testimony, too.

Q. All right. So you're not alleging that there are some missing documents, are you?

A. No.

Q. Okay. Does the example that you refer to in one of the questions from the Bench of recovery that you outline in your direct testimony, the example in your direct testimony, does that demonstrate the operation of Sheet 44?

A. Could you repeat that, please?

Schedule 5.21

Q. In one of the questions -- excuse me. In one of the answers to one of the questions from the Bench, you referred to an example that you gave in your direct testimony. Do you remember giving that answer?

A. Yes. Yes.

Q. And my question is, does that example demonstrate the operation of Sheet 44?

A. Well, that -- that sheet refers to when the ACA process was in effect after July 8th of 1982.

Q. So by --

A. But I think it illustrates -- it does illustrate prior to July 8th of 1982 what would be going on, and that is the fact that you would be expensing the gas up-front and receiving recovery for it.

Q. Let me ask it again. Your example relates to the ACA process. That's what you just said. Right?

A. Yes. And, again, that was -- that was in there before I found out that the Company -- that these -- that these balances went back to 1982. Had I known that at the time, you might see a somewhat different example. But I still think it's accurate for illustrative purposes of what would be going on

Schedule 5.22

when you have an up-front recovery situation.

Q. Does Sheet 44 reflect an ACA process?

A. No.

MR. DUFFY: Thank you. That's all of the questions we have.

JUDGE GEORGE: Redirect. Ms. McGowan?

MS. McGOWAN: Yeah.

REDIRECT EXAMINATION BY MS. McGOWAN:

Q. Mr. Wallis, was Canceled Tariff Sheet 44 that's attached to Schedule 1 to your rebuttal testimony designed to recover all of the Company's gas costs on a current basis?

MR. DUFFY: I'm going to object. Mr. Wallis has already testified that -- and we've stipulated that neither of the witnesses in this case were around when this sheet was "designed," so I object to his giving any testimony as to how a particular sheet was designed.

BY MS. McGOWAN:

Q. Mr. Wallis --

MR. DUFFY: He can certainly give his opinion as to how he thinks it operates, but he can't testify as to how it was designed.

MS. McGOWAN: ANG's witness made numerous references stating as statements of fact how the

Schedule 5.23

any evidence in his support of the position that the storage recovery was not up-front prior to 1982 other than his interpretation?

A. No.

Q. Aside from the written evidence in this -- and I guess also the testimony on the record, is there anything surrounding the facts in this case that suggests that your interpretation of Tariff 44 is more probable or less probable than Mr. Kidd's?

MR. DUFFY: Objection. That goes beyond the scope of questions from the Bench.

MS. McGOWAN: My redirect is not limited to questions from the Bench.

MR. DUFFY: Well, there wasn't any cross-examination, so the only questions that showed up were the questions from the Bench. Your question is beyond the scope of anything that has taken place.

MS. McGOWAN: Well, I think it relates to Commissioner Murray's questions because she asked if he had any other evidence, and there are other things in the record that suggest that Mr. Wallis's interpretation is more probable than Mr. Kidd's, and I just thought that Commissioner Murray -- Commissioner Murray's question deserved that type of information as well. I think she directed it specifically to written

Schedule 5.25

information.

JUDGE GEORGE: The objection is overruled.

Could you please answer that?

THE WITNESS: In my opinion, yes, yes, my approach is more likely than the Company's, or my view of what went on is more likely than the Company's.

BY MS. McGOWAN:

Q. Can you go on to expound on that and explain why it is more likely?

A. Well, again, it goes to the operation of Sheet 44. I believe that that allowed the Company, or ensured that the Company would receive up-front recovery for the storage costs because they are using the most recent supplier invoices to calculate all of this stuff, and that would implicitly include, since we're in the pre-636 environment, the gas itself, the storage, the transportation.

MS. McGOWAN: Okay. No further questions.

JUDGE GEORGE: Commissioner Murray?

FURTHER QUESTIONS BY COMMISSIONER MURRAY:

Q. Your last statement there, is what you're saying that when ANG bought gas, it was bundled with transportation and storage prior to 636?

A. That's correct.

COMMISSIONER MURRAY: Okay. Thank you.

Schedule 5.26

JUDGE GEORGE: Commissioner -- or any further questions from the Commissioners?

(No response.)

JUDGE GEORGE: Mr. Duffy, do you have any further recross based on the further question from the Bench?

MR. DUFFY: The one that Commissioner Murray just asked?

JUDGE GEORGE: Yes.

MR. DUFFY: No, sir.

JUDGE GEORGE: Thank you.

Mr. Wallis, you can step down.

(Witness excused.)

JUDGE GEORGE: Go off the record, please.

(A discussion off the record.)

JUDGE GEORGE: On the record, please.

We've concluded with Mr. Wallis's testimony.

The initial briefs will be simultaneously filed by the parties on May 11th, with reply briefs on June 1st.

Is there anything further from counsel before we adjourn?

(No response.)

JUDGE GEORGE: Hearing nothing, we're now adjourned and off the record.

Schedule 5.27

04787

NATURAL GAS PIPELINE COMPANY OF AMERICA

122 SOUTH MICHIGAN AVENUE
CHICAGO, ILL. 60603
PHONE: 312-431-7788

ASSOCIATED NATURAL GAS COMPANY
C/O ARKANSAS-MISSOURI POWER CO.
ATTN MR. RALPH WAFLER, VICE PRESIDENT
P.O. BOX 628
BLYTHEVILLE, ARKANSAS 72315

INVOICE NO. 0682-09
TERMS - NET

PLEASE SEND ALL REMITTANCES TO NATURAL GAS PIPELINE COMPANY OF AMERICA
CONTROLLER'S OFFICE, 122 SOUTH MICHIGAN AVENUE, CHICAGO, ILLINOIS 60603

JUNE, 1982

DESCRIPTION	VOLUME - M.C.F.	PRICE PER M.C.F.	AMOUNT
FOR NATURAL GAS PER ATTACHED STATEMENT			
RATE SCHEDULE DMQ1			
DEMAND CHARGE			
4,477 MCF @ $2.6900			$ 12,043.13
COMMODITY CHARGE			
MAINLINE DELIVERIES	25,521		
-WITHDRAWALS FROM STORAGE			
MAINLINE DELIVERIES BILLED	25,521		
+INJECTIONS TO STORAGE	30,000		
	55,521	2.7109	150,511.88
TOTAL RATE SCHEDULE DMQ1	55,521		162,555.01
INCREMENTAL PRICING SURCHARGES			.00
NET SALES BILLED	55,521		$ 162,555.01 *

INVOICE RENDERED ON JULY 09, 1982

PAYMENT DUE ON JULY 20, 1982

803 2115

OK REG 7-12-82
RW 7-12-82

JUL 16 1982

** INTEREST CHARGEABLE FOR LATE **
** PAYMENT WILL BE ASSESSED SUB- **
** JECT TO PARAGRAPH 8 OF THE **
** GENERAL TERMS AND CONDITIONS **
** OF NATURAL'S FERC GAS TARIFF **
** VOLUME I. **

GA-15

Schedule 6

04787

NATURAL GAS PIPELINE COMPANY OF AMERICA

ASSOCIATED NATURAL GAS COMPANY
C/O ARKANSAS-MISSOURI POWER CO.
ATTN MR. RALPH WAFLER, VICE PRESIDENT
P.O. BOX 628
BLYTHEVILLE, ARKANSAS 72315

122 SOUTH MICHIGAN AVENUE
CHICAGO, ILL. 60603
PHONE: 312-431-7786

0282-09

INVOICE NO.
TERMS-NET

FEBRUARY, 1982

PLEASE SEND ALL REMITTANCES TO NATURAL GAS PIPELINE COMPANY OF AMERICA
CONTROLLER'S OFFICE, 122 SOUTH MICHIGAN AVENUE, CHICAGO, ILLINOIS 60603

DESCRIPTION	VOLUME-M.C.F.	PRICE PER M.C.F.	AMOUNT
FOR NATURAL GAS PER ATTACHED STATEMENT			
RATE SCHEDULE DMQ1			
DEMAND CHARGE 4,477 MCF @ $3.4200			$ 15,311.34
COMMODITY CHARGE			
MAINLINE DELIVERIES	102,190		
-WITHDRAWALS FROM STORAGE	-28,008		
MAINLINE DELIVERIES BILLED	74,182		
+INJECTIONS TO STORAGE			
	74,182	2.6587	197,227.68
TOTAL RATE SCHEDULE DMQ1	74,182		212,539.02
RATE SCHEDULE W/S - 1	7,588	3.2184	24,421.22
INCREMENTAL PRICING SURCHARGES			.00
NET SALES BILLED	81,770		$ 236,960.24

INVOICE RENDERED ON MARCH 09, 1982

PAYMENT DUE ON MARCH 20, 1982

OK REG 3/11/82
RW 3-11-82

** INTEREST CHARGEABLE FOR LATE **
** PAYMENT WILL BE ASSESSED SUB- **
** JECT TO PARAGRAPH 8 OF THE **
** GENERAL TERMS AND CONDITIONS **
** OF NATURAL'S FERC GAS TARIFF **
** VOLUME I. **

803.2115
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MAR 18 1982

Schedule 7